CANADA

FREED FROM PUBLIC DEBT

AND

FREE OF UNEMPLOYMENT

by

WESLEY H. COLLIER

PRICE: 25 cents

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With all due diffidence I beg to submit the following plan for monetary reform to the thoughtful consideration of the people of Canada. I believe the plan will provide ways and means not only of financing the war without increasing taxation, but that it will keep our country free of unemployment after the war is over.

W. H. COLLIER.

Edmonton, Alberta,
May 1st, 1940.

FOREWORD

by

F. C. CASSELMAN, M.P.

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I recommend this plan of Mr. Collier's to the thoughful consideration and study of all who are really concerned about the unsatisfactory economic conditions in Canada, and particularly to those who believe that the present method of operation of our monetary system is in a large measure responsible for much of our economic maladjustment.

His proposals are peculiarly appropriate at a time when we are concerned with the adequate and successful financing of the war, but are no less appropriate to a peace time economy.

Any thinking citizen cannot but be deeply concerned about the staggering increase in our public debt, federal, provincial and municipal, over the past forty years which now requires approximately one-third of all taxes raised in Canada to pay the interest thereon.

This public debt with its ever-increasing load of interest has been steadily mounting, during good years and bad, and **MUST** ever increase as long as interest is paid on public borrowings.

The orthodox supporters of our present method of operating our financial system have no adequate answer. They are on a road that leads ever deeper into a morass, and it is only a question of time, and a very short time, before we are submerged by our self-devised folly. Mr. Collier's plan offers a road out, feasible, practical, by which we can emerge from our self-created Slough of Despond.

There is a tremendous quantity of money piled up in our banks, frozen and stagnant. Its immobility is largely responsible for our unemployment. Kept moving, it would supply work and wages and our economic system would function as it ought. The issuance of more money, therefore, is not the solution. We have too much now; the question is how to keep it moving. Mr. Collier supplies the answer.

I especially recommend Mr. Collier's plan to the careful consideration of my fellow members of parliament with the view of taking action on it.

Edmonton, Alberta, (Signed) F. C. CASSELMAN.
May 1st, 1940.

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THE PUBLIC DEBT

In 1776 Adam Smith published his great book, The Wealth of Nations, and in it he observed the following:

"When national debts have once been accumulated to a certain degree there is scarce, I believe, a single instance of their having been fairly and completely paid. The liberation of the public revenue, if it has ever been brought about at all, has always been brought about by bankruptcy —sometimes by an avowed one, but always by a real one, though frequently by pretended payment." This same observation is as true today as it was in 1776.

The total public debt of Canada, federal, provincial and municipal combined, has continually increased from Confederation, and the real cause of the increasing has been the interest paid on it. From 1900 the debt has increased at an average rate of approximately $175,000,000 a year, and the total interest charges paid on it has averaged about $195,000,000 a year. For the past ten years the increase in the debt and the total interest paid on it have averaged about $250,000,000 and $275,000,000 a year respectively. During the past forty years, for every $100 of interest paid on it, the debt itself has increased by about $90 on the average. It can be proven mathematically that the total debt must continually increase so long as the various governments continue to pay interest on their respective debts. The only way about 90% of the interest charges can be paid is by issuing additional public securities and thereby increasing the debt. To continue the present system of public borrowing, therefore, the ultimate repudiation of the total public debt of Canada is inevitable.

I propose to show a plan for monetary reform in Canada which will free every government, whether federal, provincial or municipal, from its present interest charges,

and then their respective debts can be gradually redeemed, and everybody will benefit, including the holders of all public securities. All interest charges on the public debt will be eliminated from the public revenue and unemployment will be eliminated from Canada. The plan is based on sound economics.

Supposing that you own a $100 3% federal bond for which you have just paid the government $100 in money, and that you also own another $100 of money, and that you hold the two, the bond and the money, for one year. We say that the bond has earned you $3, or 3% interest, on the money you have invested in it, because at the end of the year the bond will be worth $103 while the value of the money remains at $100.

Again, supposing that the federal government, instead of paying 3% interest on the bond, were to issue a bond bearing no interest, but at the same time were to put a 3% per annum tax on money, and that you hold a $100 non-interest bond and $100 in money the same as before. At the end of the year the bond will still be worth $100 but the money will be worth only $97, because you will have to pay the 3% tax on it. The bond will again earn, or save, you, $3, or 3% interest on the money you have invested in it. A penny saved is a penny earned.

It is evident, therefore, that a federal bond will earn, or save, the holder 3% per annum on his investment in it, whether the government pays 3% interest on the bond with no tax or money, or puts a 3% per annum tax on money with no interest on the bond. A federal bond is a form of money with the same credit, or security, behind it that money has, which is the entire credit of the nation.

A tax on money will affect all loaning of money, private loans as well as public. It will cause interest rates to be reduced by about the rate of the tax. Where interest rates are now 5, 6 and 7%, a 3% tax on money will cause them to drop to about 2, 3 and 4% respectively. The 3% per annum tax on money can be considered as creating a negative rate of interest of 3% to the lenders of money. The owner of money, either directly or indirectly, must pay the tax on it. If he cannot find a borrower for his money he must pay the tax anyway. He will be in the same position as the owner of a building for rent, who must pay the taxes on it whether he can find a renter for it or not. The tax on money will cause money to depreciate in value the 3% per annum in terms of all goods and services, and of loans and investments of money.

THE MONEY SUPPLY OF CANADA

Under our present monetary system, whenever public bonds are issued by any of the governing bodies in Canada the bonds are first sold for money, presumably the savings of the people, the interest on them is paid in money and they are finally redeemed with money. The actual monies used for all three purposes are the deposits in the banks, no matter how the deposits have been created, and the currency circulating in the hands of the public outside the banks. Anybody with a deposit in a bank or with cash on hand may invest his money in public bonds, and he expects the interest on them to be paid, and the bonds themselves to be redeemed with the same kinds of money. Both kinds are spendable money.

On Dec. 30th, 1939, the total supply of spendable money in Canada was composed as follows:

Deposits in the chartered banks, about	$2,900,000,000
Total note circulation in the hands of the public outside the banks, about	210,000,000
Total silver coins outside the banks, about	25,000,000
Total nickel and bronze coins outside the banks, about	5,000,000
Total cash on hand and in the banks, about	$3,140,000,000

All this money is privately owned by firms and individuals, and all of it is spendable, but a great part of the deposits in the banks is never used as a medium of exchange to purchase goods or services, but is held idle as reserves and savings. In a "Glossary of Monetary Terms" submitted by Dr. W. C. Clark, Deputy Minister of Finance, to the Banking Committee of the House of Commons in 1939, Dr. Clark says:

"Everyone requires a certain stock of ready purchasing power on hand to meet day-to-day contingencies. This stock is a kind of revolving fund, as new current receipts are poured into it and new current expenditures are paid out of it. On the average a certain sum will be found adequate to enable the individual to pay all bills coming due and to meet unforeseen contingencies. He will not, normally at least, wish to build it up to undue proportions, because money as a store of value is an idle asset; only when

he gets rid of it by spending or investing it does he receive benefit or gain."

It is a matter of bank records that many financial institutions, firms and individuals in Canada have built up and maintain their stocks of money to undue proportions. A tremendous amount of the deposits in the banks is made up of reserves and savings over and above the money actually used by the whole nation as an adequate "revolving fund." The national "revolving fund" is the active money which is in circulation and being used as a medium of exchange. The reserves and savings are idle assets which are not only not doing anybody any good but everybody harm, because it is only when they are spent or invested, and thus used as a medium of exchange, that the people receive any benefit or gain from them, and the people as a whole are always greatly in need of more goods and services.

All public loans are made from these idle reserves and savings. Most of the total public debt of Canada is held by the same financial institutions, firms and individuals who hold the bulk of the reserves and savings. They are the only ones who have money to loan the governments. When public securities are issued they buy them from their reserves and savings, and most of the interest they receive on the securities they put back into the reserves and savings. The interest is collected by taxes from the "revolving fund" and, therefore, taken out of circulation. This causes a deficiency in the medium-of-exchange needs of the people which forces the governments to borrow from reserves and savings and return the money to circulation. Therefore, the "revolving fund", or money in circulation, is being continually drained into reserves and savings by taxes to pay the interest on the public debt, and as continually replenished by the governments borrowing from reserves and savings and spending the money. The interest payments keep rotating in a vicious spiral from circulation through taxes to reserves and savings and back again to circulation through public loans, creating a chronic deficiency of purchasing power for the people as a whole and causing a continual increasing of the public debt.

At the end of 1939 the total public debt of Canada amounted to approximately $8,000,000,000. At the end of 1919, just after the Great War, it was about $4,000,000,000. Therefore, during the past twenty years it has increased by about $4,000,000,000, or at an average rate of $200,000,000 a year. During the same twenty years the people of Canada

paid upwards of $4,500,000,000 in interest charges, or an average of $225,000,000 a year. It can be seen from these statistics that for every $100 paid in interest on the debt during the twenty years the debt itself increased by about $90. The interest payments were the direct cause of the increase. The $100 was taken out of circulation by taxes and paid as interest. Those who received it as interest put $90 of it into their reserves and savings and spent only $10 which thereby returned to circulation. But circulation was still deficient the $90 and in order to get it back the governments were forced to borrow it from reserves and savings and spend it.

If, therefore, Canada had refunded its total public debt twenty years ago so as to eliminate the interest charges on it, not only would there have been no need to have borrowed any money for public purposes in the meantime, but the then debt would have been reduced by about $500,000,000 by the taxes which were actually collected during the twenty years. It is evident, therefore, that the sole cause of the continual increasing of the public debt is the interest charges on it.

Under my proposed plan the total public debt will be first gradually refunded on a non-interest basis, and then gradually paid off and everybody will benefit, including the holders of all public securities.

OUTLINE OF PLAN FOR MONETARY REFORM

The federal government, in co-operation with the provincial governments, shall consolidate and refund the total public debt of Canada, federal, provincial and municipal combined, as follows:

(a) **The federal government shall establish and maintain a tax of 3% per annum on money, the tax to be payable on Dec. 31st of each year.**

(b) **The federal government shall issue non-interest federal bonds in convenient denominations of, say, $50, $100, $500 and larger. The bonds shall not be taxable and they will be sold through the chartered banks at any time to any firm or individual who wishes to buy them. The bonds shall be redeemable also at the banks. The smaller denominations, say up to $500, will be made payable on demand, while the larger denominations will be made payable on, say, 30 or 60 days' notice.**

That is, anyone will be able to buy the non-interest bonds from a chartered bank at any time, and he will be able to sell them back to a bank whenever he wishes to use his money, although he may be required to give 30 or 60 days' notice before cashing in the larger denominations. So long as he holds a bond, however, he will avoid, or save, the 3% per annum tax on the money he has invested in it.

(c) The price at which the bonds will be either bought or sold by the banks will be fixed by the government at par value for the month of January in each year and will be advanced by ¼ of 1% per month for each month throughout the year, making a total advance of 3% by the end of the year. After the 3% tax on money has been paid on Dec. 31st, the price of the bonds will drop back to their par value for January of the next year. A small commission will be charged by the banks for the selling and buying of the bonds.

(d) The money from the sale of the bonds shall be deposited by the banks in a Special Account which shall be under the control of the Bank of Canada. This account shall not be taxed.

(e) The Bank of Canada will loan money from the Special Account to the various federal, provincial and municipal governments in Canada on terms and conditions to be fixed by the Bank. The loans will be made to the various governments mainly to refund their respective debts. As their different issues of outstanding bonds and debentures mature or are called, they will be either exchanged for non-interest federal bonds or be paid off with cash from the loans.

(f) The various governments will pay back the refunding loans to the Bank of Canada at a uniform rate, say at the rate of 2½% per annum, so that the total public debt of Canada may be redeemed in about forty equal annual instalments, without interest. The money will be returned to the Special Account as it is paid back and the refunding bonds will be gradually redeemed and cancelled.

(g) No more public securities shall be issued and sold by any government in Canada. After the refunding of all outstanding public securities by the non-interest bonds, any further loans for public purposes shall be

made by the Bank of Canada only for short terms until current taxes can be collected. All governments shall be required to pay-as-they-go, and further loans to them will be only temporary.

(h) **The chartered banks will no longer pay interest on any deposit accounts. All private accounts, with the exception of the Special Account, will be subject to the 3% per annum tax.**

(i) **The federal government shall establish a permanent "Prices and Trade Board" with similar powers to regulate prices and trade that the Wartime Prices and Trade Board now have. The government shall also establish a permanent "Foreign Exchange Control Board" with powers to regulate all foreign exchange. With these two boards undue inflation of prices and wide fluctuations in exchange can be prevented.**

That is the plan in broad outline. All interest charges on the total public debt of Canada will be eliminated as the outstanding bonds and debentures mature, or are called, and are refunded by means of the 3% per annum tax on money and the non-interest bonds. Then, the debt itself will be redeemed over a period of about forty years. All future borrowings for public purposes, shall be from the Special Account through the Bank of Canada.

THE 3% TAX ON MONEY

There will be no trouble in working out a simple method of collecting the tax and making it fully effective. The following method is suggested:

At the close of business on Dec. 31st each year, the banks will debit every deposit account, with the exception of the Special Account, the 3%, and credit the amount to the Special Account. There will be no saving or time accounts, but all deposits will be on demand.

The tax on currency in the hands of the public outside the banks will be payable on the following day, Jan. 1st of the new year. A complete new issue of both paper money and of silver coins shall be put into circulation at the beginning of each year. The new money will be exchanged for the old at the banks at the ratio of $103 of old for $100 of new, thus paying the tax on the money outside the banks. On and after Jan. 1st, prices will be quoted in terms of the

new money, and old money will be accepted in all business transactions at a discount until it can be taken to a bank and exchanged for new money. Most of the exchanging would be effected within a week.

Since the 5-cent nickel and the 1-cent bronze coins together forms but a small fraction of all active money, an exception might be made in their cases and not taxed. They would be allowed to remain in circulation without being exchanged for new coins. The main objectives of the 3% tax on money would be accomplished even if an exception be made and the nickel and bronze coins not taxed.

There will be no "stamping" of currency by the public, and the changing over from old money to new once a year would be quickly accomplished with very little inconvenience. Whoever holds spendable money at the close of business on Dec. 31st, whether as cash on hand or as deposits in the banks, would pay the tax on it, and every dollar of spendable money in Canada would be held by someone. The new currency would have the new year clearly stamped or engraved on it, so that it would be quickly recognized.

The total cost of collecting the tax, including the services of the banks, the printing of new paper money and the recoinage of silver currency, will be but a small fraction of the revenue that will be collected by the tax.

OBJECTIVE OF THE 3% TAX

The main objective of the 3% per annum tax on money is to mobilize the reserves and savings into the Special Account under the control of the Bank of Canada. The tax is not for revenue purposes, although some revenue will be derived from it. Nor is it to stimulate the spending and investing of money, although it is bound to do so to a considerable extent, which will be very beneficial in itself.

In order to avoid or save the tax, the firms and individuals who own the reserves and savings will buy the non-interest bonds, and the money will be put into the Special Account. As the various governments in Canada require money to pay interest on their outstanding securities, and finally to redeem them at maturity, they will borrow from the Special Account through the Bank of Canada. As the interest is paid and as the securities are redeemed, the money will flow back into reserves and savings and again into the Special Account by buying more of the non-interest bonds. Therefore, the 3% tax will keep reserves and savings rotating

through the Special Account until all outstanding public securities will have been refunded by the non-interest bonds.

Since the refunding will be done as the securities mature, or are called, there will be no repudiation whatever. The securities will be paid off with cash and the money will be at once reinvested in the non-interest bonds in order to avoid, or save, the tax. The interest charges on the total public debt of the country will be eliminated as the outstanding securities are thus refunded.

After the refunding has been completed, the total public debt will consist of a single issue of non-interest federal bonds instead of the thousands of different issues of bonds and debentures which are now outstanding; and the people of Canada will be relieved of over $320,000,000 a year of taxes which are now collected to pay interest charges.

As stated previously, statistics show that the aggregate amount of interest which was paid by taxes on the total public debt during the past twenty years was greater than the increase of the debt itself during the same period of time. Therefore, if the debt had been refunded twenty years ago and the interest on it eliminated, not only would there have been no need to have borrowed any money for public purposes in the meantime, but the then debt would have been greatly reduced by now from the taxes which were actually collected during the twenty years. Instead of the debt being now $8,000,000,000 it would have been less than $3,500,000,000.

The increase in the total public debt of Canada, not only during the past twenty years, but since 1900, has been due entirely to the interest charges paid on it. By refunding it now by means of the 3% tax on money and the non-interest bonds, there will be no need to borrow any money for public purposes after it is done, and the refunding bonds themselves will be gradually redeemed and cancelled. After the refunding, all governments will meet obligations out of current taxes, and public budgets will be kept balanced, except under very abnormal conditions, such as war.

REFUNDING THE PUBLIC DEBT

Under the proposed plan the Bank of Canada will have complete control of the issuing of the non-interest federal bonds and the loaning of money to the various governments in Canada, including the federal government. The Bank will loan enough money from the Special Account to each government to refund its debt on a non-interest basis, as

and when its outstanding securities mature, or are called, or as otherwise arranged. Each government will be required to repay its loans to the Bank of Canada at as nearly a uniform rate as may be found practicable, so that the redeeming of the total public debt of Canada may be spread over thirty or forty years with nearly equal annual payments.

As the outstanding securities of each government are refunded, the interest charges on them will be eliminated. Therefore, the interest charges on the total public debt of Canada will become less and less until it will be finally eliminated on the completion of all refunding. Each government, after the refunding of its debt, will be required to pay-as-it-goes by means of taxes, including the gradual redemption of the loans to the Bank of Canada. Any further loans to a government from the Special Account will be at the option of the Bank of Canada, and then only for a short period of time, until current taxes can be collected. Under abnormal conditions, such as war, extra loans from the Special Account might be made to the federal government, from time to time, if found necessary.

FINANCING THE WAR AND UNEMPLOYMENT

There is every indication that the war will be long and costly. Under our present monetary system the federal government particularly will be compelled to issue loan after loan, both during the war and after it is over, and the public debt will keep increasing and more and more interest will have to be collected by taxes. The money for the loans will come from idle reserves and savings in the banks, and will be spent by the government and thus put into circulation. But as fast as it is put into circulation it will be taken out again by taxes to pay interest on the public debt, and go back into reserves and savings. The interest payments on the public debt are the starting point of the vicious spiral which forces the debt continually to increase. Repudiation of public securities and inflation are inevitable with our present economy, sooner or later.

Under the proposed plan, the 3% tax on money will keep reserves and savings mobilized in the Special Account, and the Bank of Canada will keep loaning the federal government sufficient money from it to meet any and all obligations which cannot be met at once out of current taxes. The refunding of the federal debt will proceed the same as the refunding of the debts of the other governments. As fast as outstanding federal securities mature or are called,

they will be redeemed with money loaned from the Special Account, and the money will be reinvested in the non-interest bonds in order to avoid or save the tax, and will return to the Special Account. Therefore, the non-interest bonds will gradually replace the outstanding securities. As fast as outstanding securities are refunded, the interest on them will be eliminated, and the people will have less and less taxes to pay to meet the interest.

Let us assume that, on account of the war, the federal government will be compelled to increase its expenditures by $30,000,000 a month over the average monthly expenditure during the five years before the war, and that it borrows the money from the Special Account as it is required. This extra money will be paid to the men and women enlisted in the army, navy and air services and to the producers of materials, goods and services directly needed to prosecute the war. The money goes into circulation from idle reserves and savings mobilized in the Special Account. Those who receive the money as the government spends it, will spend it in turn for more goods and services for themselves and their dependents, and it will keep circulating, and the national income will be increased by many times the $30,000,000 a month which is borrowed and first spent by the government; and unemployment in Canada will be greatly reduced as a consequence.

The total national income during the five years before the start of the war averaged about $4,200,000,000 a year, and the total revenue collected by taxes by all the governments in Canada averaged about $840,000,000 a year, which was 20% of the national income.

Let us further assume that by the government spending the $30,000,000 a month extra for war purposes the national income will increase to $6,200,000,000 a year, which was about the average for the three years 1927, '28 and '29, when there was a minimum of unemployment in Canada. By keeping the same rate of taxation, 20%, the governments would collect $1,240,000,000 of revenue, or $400,000,000 a year more than during the past five years. This increase of revenue would amount to $33,000,000 a month, and most of it would go to the federal government. Therefore, the federal government would have to borrow the $30,000,000 a month for only a few months or a year before it would be collecting enough additional revenue by taxes to continue spending the $30,000,000 a month without further borrowing. The government would be able to finance most of the cost of the war out of current taxes, and

what increase there might be in the public debt would be free of interest.

If, under the proposed plan, the government can finance the extra goods and services needed to prosecute the war, either by means of taxes or by interest free bonds, and maintain a minimum of unemployment, there is no reason why it cannot continue to maintain a minimum of unemployment after the war is over by financing the production of extra goods and services for the benefit of the people of Canada in a similar manner.

INFLATION?

Both in England and in Canada the governments have demonstrated since the beginning of the war that the control of prices is both practicable and desirable. In Canada, the Foreign Exchange Control Board and the Wartime Prices and Trade Board have shown that the government can prevent the inflation of prices so long as it does not inflate currency or unduly expand the amount of money in circulation. The proposed plan does not require the expansion of the supply of money in Canada in any form.

There is a tremendous quantity of idle money in Canada held in reserves and savings under the control of a comparatively few individuals. Much of this idle money is being held by the banks, insurance companies, trust companies and other financial institutions in trust for the general public, and from the very nature of the trust the individuals who are at the heads of these institutions dare not spend it or use it as medium of exchange. They cannot spend it for consumer goods, and they dare not invest it in any industrial or commercial enterprise where there may be a risk of losing it. They are limited to investing it mostly in public securities. The interest they receive on the securities is collected by taxes from the same general public who actually own the securities. The interest is taken out of circulation, out of the "revolving fund," and put into reserves and savings; and in order to make good the resulting deficiency in circulation, it is returned by issuing more securities and thus increasing the public debt.

Is it not doing the whole nation an immense amount of harm, and does it not account for our unemployment problems, for the government to keep collecting the interest by taxes from the people, only to be forced to return it to the people by issuing more and more public securities and thus increasing the public debt? Is it not evident that this system creates the chronic deficiency of the circulation, or medium-

of-exchange needs of the people, but always abundance of reserves and savings which we actually experience in our economy? There is an immense amount of money in the banks, but only a small part of it is being used at any time as medium of exchange. The paying of interest on the public debt, by continually taking it out of circulation by taxes, creates a chronic deficiency of purchasing power for the general public. There is never enough money left in circulation to meet the medium-of-exchange needs of the people.

Under the proposed plan there will be no addition to the money supply of Canada in any form. There will be no need of more currency. The Bank of Canada will regulate the amount of money actually being used by the people as medium of exchange. The Bank will make loans, free of interest, to the governments from the reserves and savings which will be kept mobilized in the Special Account, as and when needed to increase the money in circulation, and the loans will be automatically returned by taxes. The Bank of Canada will keep sufficient money in circulation by the loans to fully meet the medium of exchange needs of the people at all times; and in co-operation with a Prices and Trade Board will prevent any undue inflation of prices.

THE MAIN FUNCTION OF MONEY

In the Glossary of Monetary Terms to which I have previously referred, Dr. Clarke explains that the main function of money is to serve as a medium of exchange, and all other functions are subordinate to it. This main function of money is the basis of our economic system.

The actual working of the economic system may be briefly described. The community of people comprising a nation purchase the things they consume and use with the money they receive from the sale of the things they produce. They produce goods and services and sell them. They sell to one another, or exchange with other nations. They are producers today, and consumers and investors tomorrow.

Each year's national income is the amount of money the community in the aggregate receive, as producers, during the year from the sale of the economic goods, which includes services, they produce. They sell most of the goods to one another, but some to other nations, from whom they buy an equal value of foreign goods. Because the sale of any goods by one person means the purchase of them by another, the national income is also the amount of money paid by

the community, as consumers and investors, for the same goods during the year. This is the same as saying that just sufficient money income is distributed to the community during the general process of production to purchase for consumption and for investment all the goods which are produced and sold by the community.

Production goes hand in hand with consumption and investment. The amount of money income received by the community, as producers, is the same as that paid by the community, as consumers and investors, during any period of time. The two amounts cannot be different, because it is the same money which is paid by the buyers and received by the sellers of the goods. In short, for the community in the aggregate,

$$\text{income} = \text{consumption} + \text{investment}.$$

From this equation it is evident that the total national money income for any year is exactly equal to the amount of money spent by the community, in the aggregate, for the goods and services they consume or enjoy, together with the amount of money they invest in capital equipment during the year.

Each one of the community first earns his income as a producer of goods and services and selling them. He then uses his income, as a consumer or an investor, to buy the goods and services of others. The quicker he uses his income after selling the produce of his own labor to buy the produce of others, the more goods and services will be exchanged within the community, and the greater will be the national income. Each one can sell what he produces only provided another has previously sold what he produced and has the money to buy. Therefore, anything in the economic system which retards or stops the spending and investing of money causes harm to the community by blocking the exchanging of goods and services. On the other hand, any stimulus to the spending and investing of money will benefit the community. In order to increase employment and production, it is necessary to stimulate the spending and investing of the money in circulation and prevent it going into reserves and savings.

The war is an abnormal stimulus to the spending and investing of money, because it consumes or destroys a tremendous quantity of goods and services which the people must both produce and pay for. The government collects the money from the whole of the people by taxes, and then pays it back to some of the people to produce the goods

and services which are required to prosecute the war. But apart from war there should be inherent in our economy sufficient stimulus to insure employment for everybody. The proposed plan provides such stimulus.

STIMULUS TO SPENDING AND INVESTING

The 3% per annum tax on money will not only keep reserves and savings mobilized in the Special Account from which the Bank of Canada will loan money to the various governments to be used for public purposes whenever needed, but the tax will also be a stimulus to the spending and investing of the money in circulation. Because of the tax, the money in circulation will gradually depreciate in value in terms of goods and services throughout the year. In other words, the tax will cause money to depreciate in purchasing power, or, it may be said, that prices of goods and services will gradually advance during the year to the extent of 3%. The quicker, therefore, anyone spends or invests his money after receiving it, the more goods and services he will receive in exchange.

In order to avoid the tax, anyone, on receiving money, either must buy non-interest bonds with it, when it will go into the Special Account, or he must spend or invest it, in which case the money will circulate the faster and more goods and services will be produced and exchanged. Therefore, the tax will undoubtedly be a stimulus to the spending and investing of money, and consequently a stimulus to employment and production and to the increasing of the national income.

UNEMPLOYMENT

When the war started last September, it was generally believed that, for its duration, there would be no longer an unemployment problem; that there would be plenty of work for everybody. But, after eight months of war, we find that the cost of unemployment has changed but very little. The eight months have demonstrated that war, of itself, is not a cure for unemployment. On the contrary, unemployment is a tremendous drain on resources which should be used to prosecute the war, and it is becoming increasingly apparent that the greatest factor towards winning the war is an immediate solution of the unemployment problem. **We must put to work the priceless idle man-power of the nation.**

The labor actually required to produce the materials, goods and services directly needed to prosecute the war,

including the men and women who are enlisted in the army, navy and air services, will probably absorb less than half the unemployed in Canada. In order to put the balance of the unemployed to work, it will be necessary to stimulate the spending and investing of money in goods and services for the benefit and use of the people themselves. The potential demand for almost every kind of goods and services is practically unlimited. Only a comparatively few in the whole of Canada have an over-abundance of the necessities of life, let alone the luxuries. There is dire poverty on every hand. In all the cities and towns throughout the country there is a great demand for homes and other buildings. Why should Canada not adjust her economy at once, so that all her citizens may be enabled to produce and serve to the maximum capacity, and, besides doing their utmost in helping to win the war, be in a position after the war is over to enjoy the highest standard of living our country is capable of sustaining?

Will not the proposed plan do this? Take the City of Edmonton. More than a thousand new dwellings are urgently needed, but everybody is afraid to build because of the high taxes and the certainty of still higher ones. The net public debt of Edmonton is about $28,000,000, and it takes about one-third of all the tax revenue of the city to pay the interest charges on it. Edmonton's debentures are callable at any time, and, therefore, under the proposed plan, the city would be able to borrow sufficient money from the Bank of Canada to refund its debt at once and put it on a non-interest basis. The city would save about $1,300,000 a year in taxes that are now required to pay interest charges. The tax rate on real property would be reduced by at least 25%. Would not that insure building construction and work in other industries that would absorb all the unemployed in the city? Similar results would occur in all other cities and towns in Canada.

THE INTEREST ON THE PUBLIC DEBT

Many economists contend that the public debt is not a burden upon the taxpayers. They claim that, since the bonds and debentures which have been issued by the various governments in Canada and are outstanding have been largely bought either directly or in trust by the savings of the people, the public debt of the nation is mostly owned by the people themselves. The part of the debt held outside the country is offset by the holdings of foreign securities

by the people of Canada. Therefore, the economists say, it should not matter how great an amount of debt interest is collected by the governments from the people, because it is returned to the people in the interest payments, and they have at least as large an income of goods and services as before.

The interest on the total public debt of Canada amounts now to about $320,000,000 a year. If the paying of this huge amount of money annually is only a matter of the governments collecting it by taxes from the people in order to pay it back to the people as interest, then why not eliminate the interest payments entirely, as the proposed refunding of the debt would do, and leave the money with the people to spend and invest themselves directly after they have earned it? Would it not save both the governments and the people all the expense and trouble of collecting this immense sum yearly by taxes, and the paying of it back as interest? Would not the elimination of the interest payments save the people far more in taxes than they get back as interest? Would not the leaving of this interest money with the people to be spent and invested directly after they have earned it, instead of waiting until it is returned to them as interest, greatly speed up the exchanging of goods and services, and the increasing of the national income?

Under the present system of public borrowing, this immense sum which is now required annually for interest is collected by taxes from the incomes of the people. Each one must pay in taxes out of his income his share of the interest charges, and, therefore, can spend or invest only what remains of his income. The interest is taken out of circulation and paid over to the actual holders of the public securities who are, for the most part, financial institutions and a comparatively few more or less wealthy individuals. The holders, after receiving the interest, spend or invest very little of it. They put most of it into reserves and savings, and then loan it afresh to the governments.

The economists, therefore, are wrong in saying that the interest is paid back to the people from whom it is collected by taxes, and that the people themselves spend or invest it, and have at least as large an income of goods and services as if they had not first paid it in taxes. In fact, as we have seen from statistics covering the past forty years, only about 10% of the interest goes directly back to the people, and is spent or invested by them, while 90% of it goes into reserves and savings, and is returned to circulation only by the

governments borrowing it and spending the money. The governments spend most of the interest, not the people, and the financial institutions and wealthy individuals keep accumulating more and more public securities, which they call liquid assets, and the people as a whole keep going deeper and deeper into debt.

Under the proposed plan for refunding the public debt, the interest payments on it will be eliminated, and the money which is now collected by taxes to pay the interest will be left with the people to spend or invest themselves directly after they have earned it. The public debt will not only be prevented from further increasing, but it will be gradually paid off. The repudiation of all public securities, which sooner or later is inevitable under the present system, will be averted; and everybody will benefit including the actual holders of the outstanding securities.

BANK DEPOSITS

On Oct. 31st, 1938, there were 4,401,971 deposit accounts in the chartered banks containing $1,000 or less of money, with an average of only $123 each. At the same time there were 391,136 accounts of over $1,000 with an average of $4,764 each. Seventy-seven per cent (77%) of all the money on deposit in the banks is contained in eight per cent (8%) of the accounts, while 23% of the money is in 92% of the accounts. These averages have remained practically the same during the past ten years.

Since 92% of all the deposit accounts in the banks contain an average of only $123 each, the 3% per annum tax on money would have very little effect on the great majority of the people. Even if they did not bother to invest their savings in the non-interest federal bonds, the tax would cost them only an average of $3.69 a year each. But many of them would invest their savings in the bonds and save the tax. It is the 8% of the accounts, however, who would earn, or save, considerable money by investing their reserves and savings in the bonds, and undoubtedly they would do so.

It is evident from these figures that the tax will not cause inflationary spending of money. It will undoubtedly stimulate to some extent the spending and investing of money, but the tax is not large enough to cause the great majority of the people to feel any serious loss from paying it. Besides, they can avoid, or save, the tax by investing their savings in the non-interest bonds. Therefore, there need be no apprehension that the 3% per annum tax on money will cause inflation.